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SUBJECT: WITH BP'S ACQUIESCENCE, RUSSIAN PARTNER TAKES OVER
AS TNK-BP'S INTERIM CEO

Classified By: DCM Eric S. Rubin for Reasons 1.4 (b/d)

Summary

11. (C) TNK-BP announced on May 27 that its board had appointed Mikhail Fridman, the senior partner in the AAR consortium that owns 50 percent of TNK-BP, as the company's new interim CEO. The company also announced the board had appointed Russian executives Pavel Skitovich and Maxim Barsky to senior positions in TNK-BP and as "candidates" for the CEO job. BP Russia's head of external affairs, Anton Mifsud-Bonici (protect), told us May 28 that the announced arrangement was largely driven by the two sides' inability to settle on a single permanent replacement by the agreed June 1 deadline. He said BP "is fine" with Fridman as interim CEO, and that the permanent CEO may still be someone other than Skitovich or Barsky, a sentiment that is shared among Moscow-based sector analysts. Despite encouraging words from BP that the partnership is going more smoothly than before, this latest episode would seem to indicate that TNK-BP has still not stabilized following last year's bruising shareholder battle. End Summary.

FRIDMAN TAKES OVER

12. (U) On May 27, TNK-BP announced the board had named Mikhail Fridman interim CEO. Fridman is the lead AAR partner, head of the Alfa Group, and was already TNK-BP chairman. The same TNK-BP announcement named two obscure Russian businessmen, Maxim Barsky and Pavel Skitovich as candidates for the permanent CEO position. The announcement did not set forth a timetable for when a decision would be made between the two but did note that Barsky and Skitovich would serve in executive positions at TNK-BP until a decision was made.

13. (U) The TNK-BP announcement came after several days of confusion. Earlier press reports on May 25 indicated that BP had nominated Skitovich, a former Polyus Gold general director, to lead TNK-BP. However, on May 26, various media outlets reported that AAR, the representative of BP's Russian partners in TNK-BP, did not support Skitovich and would suggest that AAR partner Viktor Vekselberg serve in an interim capacity until the two sides agree on a replacement. Then on May 27, reports circulated that a second candidate, Maxim Barsky, a board member and former executive at a

smaller oil company, West Siberian Resources, had emerged as AAR's choice for the CEO role.

¶4. (U) Simultaneous to the TNK-BP announcement, BP and AAR issued a joint press release with the same general announcement, but with the additional clarification that a "new independent CEO" would be selected by the end of this year. The BP-AAR press release did not refer to Barsky and Skitovich as "candidates," but simply noted that the new TNK-BP executives have "the credentials to become the new CEO." Neither announcement identified what the responsibilities of Barsky and Skitovich would be. The BP-AAR statement also specified that Fridman would be serving as interim CEO "at the request of BP."

BP: MAKING THE BEST OF A BAD SITUATION

¶5. (C) BP Russia External Affairs Director Anton Mifsud-Bonici told us May 28 that BP was under pressure to nominate a candidate by June 1, the deadline stipulated in the January agreement between BP and AAR. Furthermore, the candidate had to be a.) exceptionally capable, b.) acceptable to AAR, and c.) acceptable "to those in Russia (read the GOR) who are still upset that a foreign company owns a major asset" such as TNK-BP. With the deadline approaching and with other BP candidates shot down by AAR, BP felt it had to move forward with Skitovich. With Skitovich, BP could at least avoid being accused of trying to nominate one of its own or a westerner.

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¶6. (C) Mifsud-Bonici said he did not directly know much about either Barsky or Skitovich, but said "both are products of the current Russian business culture," and would likely operate as such. Both candidates had come through a selection process by an executive search firm and, "this being Russia," the search firm had likely received the names from interested parties, including, he assumed, AAR. BP CEO Tony Hayward and the AAR partners had interviewed both candidates and their appointment to senior TNK-BP positions (which he did not specify) would allow BP and AAR the opportunity to "see how well they integrate into the company." He added, however, that BP and AAR had left the door open to other possibilities, in addition to Barsky and Skitovich, for the CEO position. The ambiguity of the wording in the joint press release reflected that stance.

¶7. (C) Mifsud-Bonici told us BP "is just fine" with Fridman as interim CEO, especially given that Tim Summers, who has been acting CEO since Bob Dudley's resignation late last year, would remain as COO and that the company's management committee would remain unchanged. BP did not want the CEO issue to get in the way of the "business agenda" of the upcoming June 9-10 TNK-BP board meeting in Cyprus. Had Summers continued as acting CEO past June 1, when his appointment expired, BP would have opened itself up to accusations that it was not cooperating with AAR in finding a new CEO and that it was unwilling to give up control of the company to a Russian.

¶8. (C) Mifsud-Bonici added that BP rejected AAR's suggestion of Vekselberg as interim CEO because Vekselberg, as a junior partner in AAR, would have had to consult with Fridman and Alfa partner and TNK-BP Executive Director German Khan on all decisions, whereas with Fridman in charge a layer of decision-making had been removed.

"CURIOUS AND UNUSUAL" SUCCESSION PLAN

¶9. (C) Alexander Mikhailants, Summers's international affairs advisor, told us May 28 that it was not clear what either

Skitovich or Barsky would be in charge of, but that each would have the title of Executive Vice President. As to whether one of the two would ultimately emerge as the new CEO, Mikhailants echoed Mifsud-Bonici that the situation was ambiguous. He said "it's all in the hands of the shareholders and six months is a long time."

¶10. (SBU) Some outside analysts are also not convinced that either Skitovich or Barsky will be the company's next CEO. Investment bank UBS noted in one of its analyses that TNK-BP shareholders still seem to be "far from reaching agreement" and the chances "are slim" that either Skitovich or Barsky will emerge as a compromise candidate. Investment bank Troika, calling the announced succession plan "curious and unusual," predicted that each of the two contenders would likely integrate with different groups of top TNK-BP managers, making it that much harder for the board to settle on one candidate.

¶11. (C) Adding to the skepticism, little of substance is known about either Skitovich or Barsky. Ron Smith, Chief Strategist at Alfa Bank, which is owned by Alfa Group, said he knew "nothing" about either candidate. Independent energy consultant Mikhail Krutikhin was unable to provide any biographical information on either candidate. Energy journalist and Amcit Carter Tellinghuisen was likewise at a loss as to who Barsky and Skitovich were, beyond the brief sketches in the press.

¶12. (U) According to those press reports, in addition to heading Polyus Gold, Skitovich also worked in other businesses controlled by billionaire Vladimir Potanin's Interros investment group, including Norlisk Nickel and Power Machines. He was also reportedly a former Soviet diplomat in Uganda. For his part, all that is known of Barsky is that he was a senior manager at West Siberian Resources, a small oil company, where he is still on the board of directors.

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COMMENT

¶13. (C) Despite BP's public stance (and private indications to us) that the relationship between BP and AAR has improved dramatically since the depths of public and bitter dispute between the two sides, this latest episode indicates that TNK-BP is still not on stable footing. In that regard, Khan told the Ambassador recently that there was a fundamental split between BP, which wanted to build an oil company, and AAR, who were investors looking to maximize short-term profits. That split was the cause of the dispute last year and it would appear neither side in the company has really addressed it.

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